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ABSTRACT

This paper presents a multi-pronged strategy for reducing poverty and unemployment by increasing the number of jobs for unskilled workers and raising their wages. The first component of this strategy is a marginal hours employment tax credit, similar to the recently enacted New Jobs Tax Credit. This would serve to generate an expansion in employment. The second component entails the distribution of vouchers for both training and employment. These vouchers would be given to hard-to-employ workers, such as veterans, the disabled, high school dropouts, ex-convicts and ex-addicts. They would, when turned over to the employer, result in the government sharing the initial year's wage costs with the employer. Families with children would be brought out of poverty by the third and fourth components of the author's proposed strategy. These are: the guarantee of an at least minimum wage job for every family's primary wage earner, and a family wage rate subsidy conditioned on family size that would raise the earnings of low wage workers with large families. (Author/GC)

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VOUCHERS FOR CREATING JOBS, EDUCATION, AND TRAINING: VOCJET, AN EMPLOYMENT-ORIENTED STRATEGY FOR REDUCING POVERTY

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Report Submitted
to the Assistant Secretary for Planning, Evaluation, and Research
U.S. Department of Labor

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ABSTRACT

This paper presents a multi-pronged strategy for reducing poverty and unemployment by increasing the number of jobs for unskilled workers and raising their wages. A marginal hours employment tax credit, similar to the New Jobs Tax Credit that was recently enacted into law, is the first component--to generate a large expansion in employment. The second component is vouchers for both training and employment to be given to hard-to-employ workers--the disabled, veterans, high school drop outs, ex-convicts, ex-drug addicts--which, when turned over to the worker's employer, would result in the government sharing some of the initial year's wage costs with the employer. Families with children would be brought out of poverty by the third and fourth components--namely, a guarantee of a job at the minimum wage for every family's primary wage earner; and a family wage rate subsidy conditioned on family size that would raise the earnings of low wage workers with large families.

Vouchers for Creating Jobs, Education, and Training:
VOCJET, An Employment-Oriented Strategy for Reducing Poverty

A family is poor because its members are unable to work, cannot find work, or are working but earning at too low a wage rate to properly support the family. The objective of the multipronged proposal described in this paper is to raise the wages and number of jobs for unskilled workers within the political constraints of no change in the coverage or level of the minimum wage, no change in legislation defining the relationship between government and unions, and no change in the division of responsibility between the private and public sector. (The proposal assumes the continued existence of SSI and a reformed AFDC program for those groups not expected to work--the disabled, the aged, and single parents of young children.)[1]

1. VOCJET: AN OVERVIEW

The VOCJET plan contains five components--a family wage rate subsidy, a marginal hours employment tax credit, vouchers for creating employment in both the private and public sectors, vouchers for training and education, and guaranteed public jobs for family heads.

Fathers and mothers working at low wage rates would receive a wage rate subsidy that would be sufficient to raise family income above the poverty line if one member is working full time. To reduce the level of unemployment jobs would be created in the private and public sectors by a partial subsidy of employer hiring and wage costs. This is to be accomplished (1) by a marginal hours employment tax credit similar to the

New Jobs Tax Credit recently approved by Congress but based on total hours worked and (2) by a wage rate subsidy of new hires of specific groups of disadvantaged workers who would receive vouchers proving eligibility. Firms offering entering employees a training program certified by the Department of Labor would be eligible for an additional subsidy per hour worked by a vouchered employee.

The objective of these programs is to create lots of jobs, not to guarantee particular individuals a job. If a family with children has a head who cannot find a job despite the availability of these job creation subsidies, the fifth component of the program would provide him/her with a government-guaranteed job with 40 hours of work a week at the minimum wage. The wage rate of this public job would also be subsidized by the family wage rate subsidy, so families with children would be guaranteed an income at least equal to the poverty line. AFDC-UF would be phased out and the heads of intact families with children would be required to accept one of these jobs when they apply for Food Stamps. The job guarantee would thus provide intact families with children an income guarantee. The receipt of the income, however, would require work and consequently would not carry the heavy social stigma that prevents many people from applying for AFDC-UF and Food Stamps now.

The coverage and subsidy levels of the program may seem stingy to some. Wage rates and subsidy levels are kept low because they are meant to be a national floor and are, therefore, chosen with low cost of living states like Georgia, Florida and Texas in mind. States with higher costs of living would be allowed and encouraged (through matching federal contributions) to supplement the family wage subsidy and the wage rate of the guaranteed public jobs.

It is always wise when making substantial departures in social policy to start small. We do not know how many people would want a job if the government were to establish a job guarantee. There is very little experience with the administration of wage rate or earning subsidy programs for marginal and low wage workers. Consequently, the family wage rate subsidy and guaranteed public jobs programs should, at first, be targeted on the most needy group--families with children.

It should also be easier to administer a program for workers with family responsibilities than for the individual with nothing to tie him/her down. They typically have lower rates of turnover and more formalized employment environments. Jobs will be easier to create for them and the number of guarantee type jobs required should be small, because unemployment rates are typically low for this group. As experience is gained in creating jobs and administering the wage rate subsidy, the program can be expanded incrementally by raising the target wage of the subsidy, raising the wage rate of the guaranteed public job, or by expanding eligibility for the program.

This combination of programs has many desirable features. It can be used as a countercyclical weapon. It is targeted at the least skilled, lowest paid, and therefore most needy workers. Eligibility for and size of subsidy can be adjusted for family size. Administrative costs both for the government and for the firms and agencies that hire the workers are low. Last, it leaves low skill workers as free as possible to choose where to work. In addition, incentives are increased for both the employer and employee to expand the number of hours worked because the subsidy is based on hours worked. It is also designed to create a positive incentive

for family stability, involves only incremental changes in existing programs, and provides a source of extra income to the working poor that does not carry a stigma with it, because recipients and donors are able to view the extra income as something he earned. Last, within the context of other income maintenance proposal, it is not very costly.

2. THE PROBLEMS VOCJET IS DESIGNED TO ADDRESS

Many heads of large families are employed at a wage that is insufficient to bring their family out of poverty (even with 2000 hours of work per year). Some families on AFDC or AFDC-UF even have a higher income than families of equal size with a working head, and this stimulates political opposition to welfare programs.

Many other individuals are in or near poverty because, although they are willing to work, they cannot find a job. In March 1975 the unemployment rate was 19.5% for 18- and 19-year-olds, 22.3% for white high school dropouts aged 16 to 24, and 39.8% for black high school dropouts aged 16 to 24. For every two workers unemployed there is at least one other who has given up looking for work because his/her chances of obtaining a job are so slim. The costs of leaving so large a proportion of our labor force unemployed are astronomical. Some of these costs can be measured, such as lost output, unemployment insurance payments, greater AFDC, SSI, Social Security and Food Stamp payments. Harder to measure is the loss of future output.

Most important job skills are learned on the job by doing. Workers who are unemployed are not gaining the experience and skills that raise their productivity in the future, and the skills they have learned in the past are depreciating. The monetary costs are only one part of the loss.

In a society where social status and one's sense of self-esteem comes largely from one's job, the psychological damage done to the individual ego is substantial. The observable consequences of this are higher rates of marital dissolution, suicide, and mental illness.

Both the current welfare system and many proposed alternatives lower the incentive to work. Thus, even if sufficient numbers of low skill jobs paying the minimum wage were available some would choose not to work. Others would choose to work less, and still others would be induced to hold out for a higher wage than they can reasonably expect to get. Simulations of the labor supply response to a negative income tax or earnings subsidy with a 50% tax rate suggest that for every $100 given to households with employable heads there will be a $25 to $40 reduction in the household's earnings (Garfinkel and Masters, 1978; Keeley, et al., 1977).

Our desire to target income support on the most needy families--those headed by females--and to avoid work disincentives when one family member is capable of working has resulted in our aid programs treating single parent families more generously than intact families of the same size. This has created a substantial financial incentive for low income families to split and reduced the incentives for remarriage. Whether these financial incentives have actually caused a significant number of family splits and how bad such splits are if they occur is a matter of some controversy. Nevertheless, because of public concern over the rising number of families headed by women and potential intergenerational transmission of a "welfare syndrome," th s aspect of income maintenance policy has recently received a great deal of attention.

Many citizens feel that it is not fair to families with members that work long hours at low wage rates to offer larger amounts of aid to families that work substantially fewer hours at equal or higher wage rates. Implicit in this view is the belief that variations in hours worked across families are only partly due to uncontrollable events like unemployment. This view asserts that the principle of horizontal equity (that is, that like people should be rewarded in like manner) should apply to families of equal earnings capacity rather than to families of equal current income. Implicit in this view is a criterion of deservingness that depends on unearned income, the wage rate, and unemployment experience of each adult member and the costs of child care (Garfinkel and Haveman, 1978).

In the process of financially aiding low income families, current income maintenance programs force recipients to go through the humiliating experience of certifying they can no longer support themselves, to risk embarrassment every time they buy food, and conform their behavior to the wishes of the social worker. The stronger the individual's belief in the work ethic, the greater his/her sense of humiliation. Stigma is the inevitable result of three characteristics of the current income maintenance system: (a) that the income being received is unearned (it is not a consequence of one's own efforts); (b) that the application process is complicated and requires a detailed review of the family's circumstances; and (c) that every time food is purchased the dependency of the individual on the largess of the government is made visible to all.

The fundamental cause of the problems of the low wages and unemployment described above, and a major contributor to the work disincentives and family splitting incentives built in to our existing income maintenance

system is the insufficient demand for inexperienced and unskilled workers. The necessity of buying medical insurance for the worker and legal or conventional minimum wages also keep the hourly cost of even the least skilled labor high. In most employment situations the costs of hiring and training workers are quite significant. Since these workers are more likely to quit, the firm is more likely to lose its investment in hiring and training costs. These workers are also more likely to have to be fired. Union grievance procedures or informal shop custom may make firing an employee extremely costly. Laying off workers can be expensive as well because experience rating of unemployment insurance tax payments results in firms employing 60% of all workers[2] having to pay (in higher UI taxes) an amount almost equal to the unemployment insurance benefits received by its laid off employees. To the extent that these costs make firms unwilling to hire workers with characteristics signalling a significant probability that they will quit or have to be fired (that is, unskilled and inexperienced labor), these workers will never be given a chance to gain the experience necessary to make them more productive.

3. THE FAMILY WAGE RATE SUBSIDY COMPONENT OF THE PROGRAM

The eligible population of the wage rate subsidy envisaged in this proposal[3] would be husbands and wives with children who are citizens or legal immigrants and employed in the United States. Upon presentation of a voucher card to their employer certifying their eligibility they would receive additional wages of 50% of the difference between their nominal hourly wage and a target wage (which would be a function of the

minimum wage and the number of children in the family). There would be an upper limit on the number of hours that can be subsidized and a lower bound on the wage rate of a job that could be subsidized.

Within these bounds a host of potential configurations are possible. The choice of configuration depends on the goals that are given priority. Reducing family-splitting incentives, avoiding discrimination against women, equal pay for equal work, eliminating poverty in large families--all these are appropriate goals for an income-maintenance policy, but they are, to some degree, inconsistent with one another. For example, a family wage rate subsidy could achieve the first three objectives by covering wives as well as husbands and by being substantially more generous to large than to small families. Table 1 tabulates the outcomes that would be produced by one such plan. The target wage is at the proposed minimum wage for 1978 for families with one child, at 130% of the minimum when there are two children, 160% of the minimum when there are three or more children. Family heads with four or more children receive a subsidy based on a target wage of 190% of the minimum wage. This plan is comparatively generous and is sufficient on its own to bring many families out of poverty. Families receiving other forms of income maintenance--AFDC, food stamps or SSI--might be made eligible for a correspondingly less generous wage rate subsidy. They might, for instance, receive 40 percent of a target wage that rises 25% with each child. If the objectives of reducing discrimination against women and minimizing incentives for family splitting are given low priority, the cost of a family wage-rate subsidy could be substantially reduced by limiting eligibility to heads of families, or by raising the target wage of the secondary earner in the

family only 10% above the minimum wage for each additional child.

This family oriented wage supplement is a substantial liberalization (and, therefore, in some senses a replacement) of the earned income tax credit. As with the earnings credit, the employee would hardly be aware that he was being subsidized--since most people feel that they are worth more than their employer is paying them receiving a higher wage would be viewed as only fair. The stigma attached to the program would thus be minimal.

Except for the fact that the supplement is taxable like other wages, the subsidy is not conditioned on the family's income. It is available to both the wife and husband. As a result, it builds in a system of financial incentives that should reduce marital splits and increase remarriages. Leaving his wife and children results in a man losing his supplement. Marrying a woman with children makes a man eligible for the supplement. A woman would have no incentive to split because she is eligible for the supplement whether she is a member of an intact family or not. If eligibility for or the rate of the subsidy depended on family income, the woman would become eligible for the wage subsidy only if she separates from her husband. A further disadvantage of income testing is that it increases administrative costs and raises marginal tax rates.

Reducing marginal tax rates, administrative costs, and family splitting incentives results, however, in raising the programs budgetary cost and reducing its target effectiveness by an income poverty criterion. Our earlier discussion of the definition of deservingness suggests that the target group should be defined by earnings capacity rather than by

income. Using their earnings capacity measure to define poverty, Garfinkel and Haveman (1977) find that the target efficiency of a wage rate subsidy for family heads that is conditioned on family size is not all that different from target efficiency of an earning subsidy or N.I.T. Alternate definitions of earnings capacity would raise the target efficiency of the wage subsidy even higher.[4]

Making wives eligible for the subsidy without it being conditioned on family income lowers target efficiency. It will also inevitably result in at least one horror story (say a doctor's wife receiving a subsidy). While it may be conventional to treat the family as the appropriate unit for defining "deservingness," this convention is in no sense a moral absolute. Women are systematically discriminated against in the labor market. Which principle should prevail--the family is ineligible because of a high income spouse, or the individual is deserving because of her low wage rate (on average less than $3.45) and discrimination against her sex? This author prefers the second principle over the first as long as the target wage is as low as it is in this program. But if one's value judgements leads one to prefer the first, the value of the subsidy to well off families can be decreased by the simple expedient of requiring that the subsidy be counted twice in income. This would double the effective tax rate on supplement receipts without raising administrative costs appreciably.

The family wage rate supplement is a cost-effective way of raising the income of the working poor and of increasing incentives for work and family stability. It does not increase the number of jobs unless the subsidy results in a lowering of the nominal wage offered by employers. Since social and legal minimum wages establish an effective floor for wage

rates of many of these workers, any increase in employment demand is likely to be small and to take a long time.

This lack of an immediate employment creation effect means the family wage rate subsidy is not very effective as a countercyclical jobs program. A change in the target wage would primarily impact on job availability through its impact on aggregate demand. We need to operate on the supply side of the market if either permanent or countercyclical increases in the number of jobs are desired. (This is accomplished by the marginal hours employment tax credit component of VOCJET, described in the next section of the paper.)

4. THE MARGINAL HOURS EMPLOYMENT TAX CREDIT

The tax credit for increases in employment (New Jobs Tax Credit) that is part of the Tax Reduction and Simplification Act of 1977 would be modified and made permanent. Under current law:

> The credit is 50 percent of the increase in each employer's wage base under the Federal Unemployment Tax Act (FUTA) above 102 percent of that wage base in the previous year. The FUTA base for a year consists of wages paid up to $4,200 per employee....
>
> The employer's deduction for wages is reduced by the amount of the credit. Therefore, although the maximum gross credit for each new employee is $2,100, the effective credit ranges from $1,806 (for a taxpayer in the 14% tax bracket) to $630 (for a taxpayer in the 70% bracket).
>
> The total amount of the credit has four limitations: (1) the credit cannot be more than 50% of the increase in total wages paid by the employer for the year above 105% of total wages paid by the employer in the previous year, (2) the credit must be no more than 25% of the current year's FUTA wages, (3) the credit for a year cannot exceed $100,000 and (4) the credit cannot exceed the taxpayer's tax liability. Credits which exceed tax liability for a year may be carried back for 3 years and carried forward for 7 years (Joint Committee on Taxation, 1977).

The requirement that the total wages paid rise by at least 5% is designed to insure that the New Jobs Tax Credit (NJTC) is based on actual increases in employment rather than artificial increases in unemployment insurance wages (for example, an employer could increase unemployment insurance wages by dividing full-time jobs into part-time or part-year jobs). The second limitation (that the credit cannot exceed 25% of FUTA wages) limits the amount of credit that new and rapidly expanding businesses can receive.

Simulations of this credit suggest that if firms are aware of their eligibility, there should be a substantial increase in employment demand for youthful and unskilled workers. In the preferred model these simulations predict a 4.6% increase in overall employment and a 10.8% increase for men under 25 (Bishop and Lerman, 1977). The speed with which a NJTC based on the federal unemployment tax base can be implemented makes it the preferred short run instrument for fighting the recession. Its temporary nature reduces the impact of any distortions it may produce. Any long term attempt to promote employment, however, will require a marginal subsidy that is based on hours worked.

The advantage of basing a subsidy on hours rather than earnings up to $4200 is that it does not create artificial incentives for employers to substitute part-time and part-year workers for full-time workers. In its current form the New Job Tax Credit creates an incentive to hire new employees but to do so only for the time it takes them to earn $4200. A high priced consultant hired for three weeks can receive the same subsidy as a low skilled worker hired for a full year. Employing two or three part-time workers to do the job of one full-time worker can thus double or triple the amount of subsidy for essentially the same job. The requirement that the total wage bill increase by at least 5% is designed to prevent an already existing full-time labor force from being turned into a larger number of part-time workers. This provision does not prevent firms from using only part-time workers when they expand, however. As time passes and wage rates rise, any eligibility criterion that depends on the total wage bill will become increasingly ineffective.

As soon as possible, therefore, a transition should be arranged to a Marginal Hours Employment Tax Credit (MHETC). In a MHETC, employers would be eligible for a tax credit based upon the increase in total hours of work paid for by the employer over some base amount. A subsidy rate of $1.00 per hour would produce a subsidy of about $2000 for each extra full-time full-year worker hired.

The selection of industries and firms to be transferred to the MHETC would depend upon the administrative feasibility of measuring total hours in the base year, 1976, and later years. Firms covered by the minimum wage are required to keep the necessary records—time cards and sheets for each worker (Reporting Requirements, 1976: Section 516.6)—for at least two years. It should, therefore, be possible to measure total hours worked without much difficulty and these firms would be mandated to transfer to the MHETC. Other firms would be allowed to transfer to MHETC if their records on 1976 employment were sufficiently complete and an administrative mechanism for reporting hours in future years is available.

The proposed MHETC would cover state and local governments, non-profit organizations and would not have a cap on the amount of subsidy any particular employer may receive. A $100,000 cap on the amount of tax credit any particular firm may receive for having additional workers is undesirable because it removes the incentive for firms employing over 35% of all workers to change their behavior in order to become eligible for the credit. In order to achieve the same overall stimulus to employment the per employee level of the subsidy must be more than proportionately increased and as a result the cost per job created rises. Higher per worker levels of subsidy focused on fewer workers also magnifies the distortion costs

of the credit. The $100,000 cap discriminates against large firms. This is undesirable because their workers generally receive more training on the job and are better paid. If favoring small firms is desired, it is better to do it by adjusting the rate of subsidy to some measure of the size of the firm such as the 1976 total wage bill subject to Social Security tax.

In the MHETC the threshold amount of total hours worked above which a subsidy would be paid would be based on an average of past peak levels of total hours not on last year's employment as the NJTC. Changing the way the threshold is updated is needed for two reasons: (a) to take away the incentive to reduce employment in one year in order to increase the amounts of tax credit in later years, and (b) to reduce the destabilizing character of the credit. In most manufacturing and construction enterprises it is possible to shift the timing of production into the following calendar year by depleting inventories, allowing order backlogs to grow and by deferring general maintenance. Updating the threshold every year means that alternately expanding and contracting employment in successive years maximizes the firms' receipts of tax benefits from the credit. Furthermore, as the economy reaches full employment and the growth rate of employment and hours worked slows down, a large number of firms will not meet the employment growth target of 2%, lose their eligibility for subsidy and, therefore, end the temporary changes in labor intensity and inventory accumulation that the subsidy had induced. Other firms will find that since their feasible growth of employment is now small, the advantages of receiving a subsidy this year are outweighed by the advantages of increasing the amount of subsidy they will be

eligible for next year. Like the firms that lose their eligibility involuntarily, these firms will cut back employment and run down their inventory. Since most firms will be going on and off the credit at similar points in the cycle, a permanent credit with yearly updated thresholds will accentuate booms and worsen recessions. Updating an employment tax credit's threshold every year has the effect of making the credit a built in destabilizer.

The MHETC would update each firm's subsidy threshold by basing it on an average of the three highest years of employment in the four years preceding the last year. More formally the base in year t would be Base(t) = [E(t-2) + E(t-3) + E(t-4) + E(t-5) - min (E(t-2)...E(t-5))] ÷ 3 where E (t-k) is total hours worked at the firm in the (t-k)'th year. A firm continuously growing at a 2% year to year rate would have an $E(t) = (1.02)^3 \cdot Base(t) = 1.061 \cdot Base(t)$. The subsidy is paid on the hours in excess of some threshold level of total hours worked which is defined by $Threshold(t) = Base(t) \cdot (1+r)^3$ where r is the rate of growth of the employment threshold. Thus, if total hours worked at a firm for 1976 through 1980 were 100, 107, 102, 90 and 101 thousand, the threshold would be based on (107 + 102 + 100) ÷ 3 = 103 thousand. If the rate of growth of the employment threshold is 2%, this firm's 1981 threshold would be $103 \cdot (1.02)^3 = 109.3$ thousand hours.

This formula postpones for 2 to 5 years the increase in credit eligibility that results from restricting this year's employment. An entrepreneur can never be sure that two or three years in the future the credit will still be on the books or that he will have the profits or product demand to take advantage of it, so he is likely to heavily

discount the benefits of postponing eligibility for the credit. This eliminates the incentive to follow a sawtooth pattern of employment and reduces the tendency of the credit to accentuate recessions.

The second method of reducing the destabilizing effects of the credit is to adjust the expected rate of growth (2% in the above examples) countercyclically. The objective would be to adjust the threshold so that when unemployment was high a larger proportion of firms would be eligible for the credit than when unemployment is low. Thus, as we come out of the recession the expected rate of growth should be raised to 3 or 4%. If the unemployment rate is high and rising, the expected rate of growth should be lowered to zero or negative numbers. This type of manipulation of the credit was explicitly called for in some of the legislative proposals which evolved into the NJTC that became a part of the 1977 Tax Reduction and Simplification Act. Because of the delays and politics of the tax legislating process, it will most likely be necessary to either write a formula into law or set up special expedited procedures for setting the threshold within a month of the President's Economic Report.

5. VOUCHERS FOR CREATING EMPLOYMENT IN PRIVATE AND PUBLIC SECTORS

This component of the program would provide vouchers to eligible workers which they could take to any eligible employer they desired. For each of the workers hired an employer would receive a certain amount per hour worked which would depend on the characteristics of the individual, the amount of training offered by the employers, and how long the worker has been employed at that firm. The per hour rate of subsidy and the eligibility requirements for a voucher could be set administratively within limits set by Congress (or vary with an unemployment rate trigger) so that the program could be used as a counter cyclical weapon. The proposed permanent rules for such a program are described below. During a recession they might be liberalized.

Individual Eligibility

A general requirement that would apply to all is citizenship or legal immigrant status. A worker could qualify under only one job category. Successful applicants would receive an ID card embossed with his social security number, rate of subsidy, and signature or photograph. The specific hourly amounts listed below should be considered suggestive and subject to modification.

(a) Employers of blind, deaf, disabled, and certified mentally retarded workers would receive a per hour subsidy of between $0.60 and $1.50 depending upon the extent of the worker's disability. The worker would be eligible for a voucher as long as the disability continued. There are currently 500,000 such workers in sheltered workshops and millions

more in private employment. Eligibility certification would be by State Vocational Rehabilitation Agencies.

(b) Parolees from prison, ex-addicts (including those on methodone maintenance), and former mental patients would be eligible for a voucher worth between $0.60 and $1.20 an hour for between one and five years. The size and time period of the voucher would depend on how long the individual had been incarcerated. Eligibility would be certified by parole boards and mental hospitals.

(c) All adults and children over age 16 on AFDC, AFDC-UF, Home Relief, or SSI would be eligible for a voucher worth $0.70 an hour. The period of eligibility would be one year. For individuals still on AFDC at the end of a year there would be a waiting period of one year before they became reeligible. The Social Security Administration and local welfare departments would be responsible for certifying eligibility.

(d) All Vietnam Veterans (irrespective of the nature of their discharge) would be eligible for a voucher worth $0.60 per hour for one year if exercised within one year of the effective date of the act. Eligibility could be extended into the future for those veterans studying full-time. Post-Vietnam veterans would receive a voucher worth $0.60 per hour that must be exercised within three months of discharge. The Veterans Administration would certify eligibility of this group.

(e) For the school vacation period students who have just completed sophomore, junior or senior year of high school would receive a voucher worth $0.50 per hour. If eligibility for vouchers for a school vacation period were made conditional upon parental income, it could be required that income from these vouchered jobs be reported on the parents' income

tax return to minimize the incentive for children in wealthier families to take advantage of the voucher. Similar vouchers would be available to students in cooperative--work and study--high school programs. Eligibility certification would be by the high schools.

(f) Workers certified to have lost their jobs because of the competition of foreign imports would receive a $0.60 per hour voucher good for one year. Determinations of whether industries and their workers have been damaged by imports is already mandated by Foreign Trade Adjustment Assistance Act. The rules and procedures for making such certifications currently used by the International Trade Commission would be continued.

(g) Young people who leave high school without receiving a diploma would receive a two year voucher worth $0.60 an hour. There would be a waiting period of four months between leaving high school and becoming eligible for the voucher. A high school dropout would have to start using his eligibility within two years of leaving high school. A woman who has a child during this period would be eligible at any time until her youngest child is seven years old. All high school dropouts under 25 years old would be grandfathered into eligibility at the beginning of the program. Certifications would be by high schools. Since the employer, not the employee, would receive the subsidy, there would be little danger of the voucher increasing the high school dropout rate.

(h) Any adult between 20 and 67 who has not earned more than $600 in any of the last four consecutive years would be eligible for a voucher worth $0.60 an hour that would last one year. Because their records would have to be checked, these certifications would be handled by the Social Security Administration.

The Period of Eligibility

The period for which an employer receives a subsidy for hiring a person would depend on the workers characteristics as described above. The amount of the subsidy would decline over the period of eligibility--reaching one-half the original amount half way through the eligibility period.

Job Eligibility

The wage would be required to be at or above the minimum wage if the job is covered by the minimum wage. If the job is not so covered, a completely disabled worker would have to be paid at least 60% of the minimum wage and all others at least 80% of it. Above a limit wage of $5.00 an hour, the value of the subsidy would be diminished by 5¢ per hour for every 10¢ increase in the straight time hourly wage.

The supplement would be paid on every hour worked, up to a maximum of either 45 or 47.5 hours per week. Thus, one year's eligibility for a $.70 subsidy would be worth $1050 to the firm if the employee worked 2000 hours. A $1.00 subsidy would be worth $1500. The administration of this voucher component would be integrated with the family wage rate subsidy.

Employer Eligibility

The employer would not be able to be a relative and would have to be paying social security taxes on the earnings of all employees. If the not-for-profit sector of the economy were thought to be an especially desirable place to employ these disadvantaged workers, public and non-profit organizations could be eligible for larger per hour subsidies and for longer

periods of time. For instance, they might be permanently eligible for a subsidy of the second eligibility category (former convicts, drug addicts, and mental patients). Those employers receiving hourly wage rate subsidies under the Marginal Hours Tax Credit as well as for vouchered employees would not receive the full subsidy amount that their vouchered employees would normally make them eligible for. The hourly subsidy for vouchered employees could be made $.20 less than the $.50 to $1.50 it otherwise would be. Firms could opt instead to have their marginal hours tax credit reduced by $.20.

Some analysts fear that a wage subsidy of specific groups of workers would result in the subsidized workers displacing unsubsidized workers. If this is considered a serious drawback of the program described here, employers of more than one vouchered worker could be required to certify that they are not laying off other employees in order to hire the vouchered workers. This certification could be made in any one of four ways:

(a) If an employer is eligible for and receiving a marginal wage bill subsidy (either the New Jobs Tax Credit or the Marginal Hours Tax Credit).

(b) The job obtained by the vouchered employee is covered by a union contract or firm rule that requires that previous laid off workers have recall rights which give them priority over new hires.

(c) The establishment is part of an experience rated unemployment insurance system and is not at the maximum tax rate on that system. Twenty percent of all employment is in firms whose layoff experience is so low they are at the minimum tax rate. 60% of all jobs are in firms (Becker, 1972), that must increase their payments into the UI system to match the UI payments received by their laid off employees. For these

firms laying off one worker in order to replace him with another eligible for a subsidy would seldom be profitable even if the firm did not feel constrained by considerations of employee morale. If the firm is lucky enough to have a vouchered worker stay for a full year, it will receive between $900 and $1500. This is a very small benefit to stack up against the hiring and training costs for new employees and having to pay the unemployment insurance benefits of the worker who was laid off. Even doubling the rate of subsidy is not going to create such a strong incentive that experience rated firms will want to layoff an unvouchered employee just to hire a vouchered worker.

(d) Cumulated from a base date defined by the act, involuntary separations must be smaller than the number of recalls and new hires of unsubsidized workers. Mathematically this may be specified as:

$$\sum_{t=b} \text{Layoffs}(t) + \sum_{t=b} \text{Firings}(t) \leq \sum_{t=b} \text{Recalls}(t) + \sum_{t=b} \text{Unvouchered new hires.}$$

This means that vouchered employees could only be used to expand employment or replace voluntary quits and retirees. The date from which these cumulated calculations must be made could be periodically updated. Lost eligibility would result in the firm not being able to receive subsidy on new employees until they come into compliance with the requirement. Only a few establishments would need to be certified in this manner. Small firms would not need to because they are not likely to desire more than one vouchered employee. Almost all larger employers are either experience rated or covered by a union contract that specifies recall rights.

These "no displacement certifications" are designed to insure that the interests of unsubsidized low skill workers are protected and to prevent an increase in job turnover. The fact that the employer subsidy

would be of limited duration has the effect of focusing the subsidy on the period when the employee is learning the ropes and consequently not fully productive. It is a way of subsidizing the training period without undertaking detailed administrative oversight which is both costly to the government and firm and lowers the incentive for the firm to participate in the program. Except for the veterans, the manner in which the target group is identified is keyed to their presumed skill deficit.

The Effects of the Job Voucher Component

While a $900 subsidy would not be enough to induce firms to fire an experienced worker in order to hire a new vouchered worker, it would be sufficient to influence the selection of which person to hire when an expansion of employment is already contemplated. By lowering the marginal cost of expanding output, it would induce firms to expand output, thereby expanding total employment and increasing the utilization rate of capital already in place. Sectors of the economy that use large numbers of low skill workers--such as restaurants, retailing and services--will lower prices, thereby reducing inflation. By lowering the price of low skill labor on the margin, it would cause substitution of these workers for capital, materials, and high skill labor. Since the subsidy will be placing downward pressure on prices and making available resources that would normally be idled by legal and customary minimum wages, the trade-off between inflation and unemployment would be improved and a more stimulative fiscal and monetary policy would be feasible.

6. VOUCHERS FOR TRAINING AND EDUCATION

This component of the program would provide an additional training and education voucher to all individuals eligible for jobs vouchers. Firms which offer their entering workers a training program certified by Department of Labor administrators would be eligible for an extra subsidy of $0.25 to $0.50 per hour worked by a vouchered employee. The size of the subsidy premium and the length of time for which it is paid would be set by federal administrators based upon employer-provided descriptions of program and by site visits. An alternative means of certification would be an arm's length contract with an outside agency to provide the training to both subsidized and unsubsidized employees.

Because small firms may find these reporting and review requirements burdensome a third method of having a training program certified would be made available to them as follows. Using the most recent set of scale wages for each job and seniority classification, an average scale wage for the voucher employees (except for classification 1) would be calculated, classifying them first by their entry jobs and second by their job and seniority one year later. If the ratio of the second to the first is greater than 1.05 the firm would be eligible for the standard training subsidy of future employees. Involuntarily separated voucher employees would be counted as if their entry wage had not risen. Vouchered employees who left voluntarily would be excluded from the calculation.

7. GUARANTEED PUBLIC JOBS FOR FAMILY HEADS

Open-ended partial subsidy programs like those described in sections 4-6 are the most effective methods of producing general expansion in the employment of targeted groups. By increasing employment they reduce the number of unemployed workers and the number of families on welfare. The vouchers and credits are not, however, able to insure that any particular individual will have a job. In the past, the task of maintaining the economic well-being of those willing to work but unable to find work has been left to income tested cash or in-kind transfers with work registration requirements--such as UI, Food Stamps, and AFDC-UF. A work registration requirement is not, however, an effective work requirement. The unemployed worker generally does not have to accept employment outside his chosen occupation and can, if he wants, make himself seem sufficiently unattractive to forestall the offer of an unwanted job. Consequently, the availability of support from these programs can be expected to induce some people to lengthen the interval between jobs and to hold out for types of job and wage rates they cannot reasonably expect to get.

An alternative approach to maintaining a family's well-being during a spell of unemployment is to provide a job for the breadwinner. If a job with a living wage can be guaranteed, the case for an income guarantee for able-bodied adults is greatly weakened. The job guarantee would serve as a fine-meshed net to catch the families who are missed by the family wage rate subsidy, the hours tax credit, and the job vouchers. A job guarantee is possible, however, only if the costs of the job are fully funded by government.

The primary reservation most economists have with this strategy is the fear that it may not be feasible to create enough jobs. One way to reduce the number of jobs that must be created is to keep their wage at or below the minimum wage. This would reduce the incentive to leave private employment for a public job. Such jobs, however, will leave one-earner families with two or more children in poverty. The solution to this dilemma is to adjust the wage rate to family size as does the family wage subsidy component proposed in section 3.

A second way to limit the number of public jobs is to offer the guarantee only to specific demographic groups, such as heads of families with children. This is the approach adopted in this component of the VOCJET multipronged proposal.

A job guarantee would be limited to the heads of intact families with children. First priority would go to the heads of families receiving AFDC-UF and Food Stamps. The second priority group would be those receiving extended unemployment insurance benefits. Each head would be offered a choice of three job or training alternatives. This, together with the work requirement of these programs, would make acceptance of a public job an effective work test. If local, state, and federal government agencies have no particular difficulty absorbing the extra employees, the guarantee could be extended to other groups such as single individuals living alone, heads of intact families with no children, heads of intact families with children, female heads with children over 10, or wives in intact families with children over 10. In localities where more public jobs were available or where the number of unemployed heads needing a guaranteed job was small, additional categories of workers could be offered a job guarantee. As the coverage of the job guarantee was expanded, an effective work requirement would be

progressively spreading to cover those recipients of Food Stamps, AFDC, and extended UI benefits who are not heads of intact families with children.

Application for and Assignment to a Guaranteed Public Job

The current AFDC-UF program would be replaced by a guaranteed public job for heads of intact families with children. A waiting period of two weeks between application and assignment to a job would be standard. When application is made, the unemployed worker would receive his family wage rate subsidy and job vouchers if he has not already received them and would be aided in his search for a partially subsidized job. Job counsellors would use this period to determine the applicant's skills and interests. Income support for the family (if it is needed) would be provided by general relief.

Before the end of the two-week waiting period three or more job or training alternatives must be offered to the individual by the public job agency. The family would become eligible for AFDC for as long as three such job offers cannot be found. While the agency would endeavor to match the job to the skill and interests of the applicant, this would not be a requirement except for training options. If all three of the options offered are turned down or the worker is fired for good cause by his employer, there would be a one-month waiting period before the worker would be guaranteed another three job or training offers, and the family would again become eligible for AFDC if three such offers were not found. During this one-month period the individual would be eligible for a public job if there were jobs available. He would not, however, be guaranteed one, and people who had not turned down three offers within the last 30

days would have priority over him. Income support during this one-month period would be provided, if needed, by general relief and would not exceed 75% of the earnings provided by full-time employment in a public job.

Creating the Jobs

The federal government would pay the wage and fringe benefit costs of these public jobs. Jobs would be created in the federal government, state and local government agencies, and non-profit agencies.

(a) Federal government. Most of the federal jobs would be in regional offices and military bases spread around the country. Each regional office of each agency would have a job creation quota that would depend upon its employment in the lower ranks of the Civil Service. Each agency would pay these employees out of its normal budget but could appeal to the Office of Management and Budget for extra funds if needed.

(b) The eligibility of non-profit agencies for a fully funded public employee would be tied to the dollar amount of revenue it received from governments of all levels and from foundations. An agency would be eligible for one fully funded worker if it spent at least $200,000 on employee compensation, and an extra worker for each additional $400,000 spent on compensation.

(c) The residual job creation responsibility would lie with a state job creation agency which would be geographically decentralized by metropolitan area where feasible. A variety of strategies would be available to this agency for creating jobs, including taking applications from local and state government agencies and contracting with non-profit

agencies to employ specific numbers of unemployed family heads, as has been done in Canada.

Maintaining Opportunities and Incentives for Obtaining Unsubsidized or Partially Subsidized Employment

To increase their attractiveness to other employers, guaranteed job holders would be eligible for one-year job vouchers worth 60¢ an hour. These workers would also remain listed with the employment service and would continue to receive job search counseling. In addition, these workers would be expected to continue looking for other work while employed in the guaranteed job. Supervisors would be expected to arrange compensatory time if hours during the standard working day were needed for job search.

Matching Jobs to Workers

Both the worker and his boss would have the right to apply for transfer of the worker to another job. If a worker could induce another eligible agency to request him, a presumption in favor of such a transfer would exist. Decisions about transfers would be made by the Job Guarantee Agency.

Comparison With Other Public Employment Programs

U.S. experience with public employment programs like PEP and CETA suggests that while they have salutary short-run effects their primary long-term result is revenue sharing, not increased employment in state and local governments. (Johnson and Tomola, 1977, Wiseman, 1976). This

lack of long-term impact suggests that while PE may be an effective countercyclical weapon in short recessions it is not, as presently constituted, an effective instrument for making permanent changes in the structure of the labor market.

The large long-run displacement effects were a consequence of two characteristics of the PEP and early CETA programs:

(a) Most of the funded jobs were in already established agencies rather than in segregated projects.

(b) Criteria of eligibility for PE were so all-inclusive and the wage so high (up to $6.00 an hour), that many more unemployed workers were eligible for subsidy than CETA could subsidize. The employing agencies selected the most qualified workers from the pool and were, therefore, able to benefit from the program without having to change hiring standards or restructure jobs. Agencies already planning an expansion were able to shift the costs of their expansion on to the federal government.

One strategy often suggested for reducing the amount of displacement is to create the jobs in segregated projects as was done in NYC, CCC, and Operation Mainstream. There are disadvantages to this approach, however, because jobs created in this way are more expensive to administer and less likely to produce an output with value equal to its cost. Even if displacement of other state and local jobs is avoided, competition by these projects for markets or workers may displace private jobs.

The guaranteed public job component in VOCJET does not purport to expand economy-wide employment in the long run. Rather, its objective is to <u>redistribute</u> employment toward heads of families who would otherwise

be unable to find work or be unwilling to accept work. The availability of public jobs which can be targeted on specific individuals allows society to create a job guarantee for intact families--thus obviating the need for an income guarantee for this group. Together, the family wage rate subsidy component and the guaranteed public job component can end poverty for families with children, and do so without creating the powerful work disincentives present in the current income-conditioned transfer programs.

8. GENERAL ISSUES THAT APPLY TO ALL VOCJET COMPONENTS

Adjustments for geographic differentials in cost of living would be initiated by the state and will up to a limit be partially reimbursed by the federal government. Cost of living adjustments to the family wage subsidy would be carried out by raising the state or locality's target wage. If a state desires, separate target wages may be calculated for each SMSA. States could also influence eligibility for employer subsidies by legislating a higher limit wage in their state. The state, however, would be required to pay a major portion of the resulting additional subsidy payments.

Partial federal reimbursement would be available for increases in the target or limit wages only to the extent the local cost of living (including local income taxes) exceeds 90% of the national average. The costs of closing the first half of this differential would be reimbursed at a 40% rate. The costs of closing the remaining differential would be reimbursed at a 20% rate. Thus, a state with a cost of living index of 110 would receive a 40% federal reimbursement of the costs if it raised

the target wage by 10%. If it raised the target wage another 10% above the federal target standard it would receive a 20% reimbursement of these incremental costs.

The BLS would use a standard budget for purposes of calculating each state's cost of living. Variation in the items to be priced would only be allowed if it were weather related.

NOTES

[1]See Bishop and Lerman (1977) for discussion of related issues.

[2]Twenty percent of firms lay off so few workers that they are not involved in the experience rating process. Another 20% are already at the maximum, so an additional lay off makes no difference.

[3]For discussion of the administrative issues involved in a Wage Rate Subsidy see Bishop (1977).

[4]The Garfinkel-Haveman (1978) methodology uses the person's actual wage rate to calculate eligibility for and the size of the wage rate subsidy. The earnings capacity of the family, however, is calculated completely without reference to the actual wage rate. An earnings function is used to predict earnings for each person in the sample if he worked full time. The earnings capacity of each individual is this figure plus a random error with mean of zero and a variance equal to the residual variance of the earnings function. Since the residual variance of the semi log earnings function is more than half the variance of logged wage rates, the correlation between the assigned earnings capacities and actual wage rates is rather small. This results in an understatement of all target efficiencies and an especially large understatement of a wage rate subsidy's target efficiency.

Table 1. A Liberal Family Wage Rate Subsidy for 1978

	Before Subsidy Income	After-Subsidy Income (no. of children) (1)	(2)	(3)	(4+)	Wage Subsidy (no. of children) (1)	(2)	(3)	(4+)
Case I: Head Works 2000 Hours									
Wage rate: $2.00	$4000	4500	5250	6000	6750	$500	1250	2000	2750
2.50	5000	5000	5750	6500	7250	0	750	1500	2250
3.00	6000	6000	6250	7000	7750	0	250	1000	1750
3.50	7000	7000	7000	7500	8250	0	0	500	1250
4.00	8000	8000	8000	8000	8750	0	0	0	750
Case II: Head Works 2000 Hours, Wife Works 1000 Hours									
Wage rate: $2.00	$6000	6750	7875	9000	9750	$750	1875	3000	3750
2.50	7500	7500	8625	9750	10500	0	1125	2250	3000
3.00	9000	9000	9375	10500	11250	0	375	1500	2250
3.50	10500	10500	10500	11250	12000	0	0	750	1500
4.00	12000	12000	12000	12000	12750	0	0	0	750
Food Stamp Break-even		$6574	8452	9861	11270				
Poverty Line		$4719	6014	7109	8000				

Note: This illustration is a program for which the target wage rises 30% of the minimum wage for each child, the subsidy is 50% of the difference between the actual and target wages, and the family is not receiving food stamps or AFDC.

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